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Message Text

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ACTION NEA-11

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
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C O N F I D E N T I A L KABUL 4637

E.O. 11652: GDS
TAGS: EFIN, AF
SUBJECT: DIFFICULTIES IN THE MONEY BAZAAR: WHITHER THE AFGHANI?

1. KABUL'S FREE MARKET MONEY BAZAAR HAS BEEN SHAKEN BY THE ARREST OF SEVERAL OF ITS MOST PROMINENT DEALERS. AT LEAST TWELVE, AND POSSIBLY AS MANY AS 19, DEALERS HAVE BEEN ARRESTED IN MIDNIGHT RAIDS ON THEIR HOMES IN THE LAST TWO DAYS. (THERE ARE APPROXIMATELY 40 LARGE DEALERS IN THE BAZAAR.) THE MAJORITY OF THOSE ARRESTED HAVE BEEN AFGHAN HINDUS. THUS FAR, THERE ARE NO REPORTS OF PROMINENT MUSLIM DEALERS BEING HAULED IN.

2. ALTHOUGH THE MONEY BAZAAR IS STILL TECHNICALLY OPEN, TRANS-ACTIONS ARE AT A MINIMUM. THE FREE MARKET EXCHANGE RATE IS QUOTED AS LOW AS AFGHANIS 36.50/$1.

3. HE REASONS FOR THE ARREST OF THE DEALERS ARE UNCLEAR. THE MOST PLAUSIBLE EXPLANATION IS THAT SOME DEALERS, IN LEAGUE WITH BANK OFFICIALS, WERE INVOLVED IN CURRENCY SPECULATION -- TAKING ADVANTAGE OF THE LARGE DIFFERENTIAL BETWEEN THE BAZAAR RATE AND THE BANK RATE (AFGHANIS 42/$1) TO MAKE ILLICIT PROFITS EXCHANGING MONEY. ANOTHER STORY IS THAT WHILE SEARCHING THE HOME OF DAOUD'S BROTHER, NAIM, DOCUMENTS WERE FOUND RELATING TO FOREIGN BANK ACCOUNTS AND DEALINGS THROUGH THE BAZAAR. THE CONFIDENTIAL

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ARRESTS COULD, OF COURSE, SIMPLY BE A GOVERNMENT CRACKDOWN ON THE FREE-WHEELING OPERATIONS AND SECRETIVE DEALINGS OF THE BAZAAR.

4. COMMENT: MONEY BAZAAR DEALERS ARE NOTORIOUSLY RETICENT ABOUT REVEALING DETAILS OF THEIR OPERATIONS, AND IT IS DIFFICULT TO SKETCH A COHERENT PICTURE OF WHAT MAY BE HAPPENING THERE.

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HOWEVER, THE BAZAAR IS A LOGICAL FIRST TARGET FOR THE NEW GOVERNMENT IN ASSERTING ITS CONTROL OVER THE ECONOMY OF THE COUNTRY; IN FACT, IF THE GOVERNMENT IS TO MOVE TO A CENTRALLY PLANNED AND CONTROLLED ECONOMY, IT CANNOT PERMIT THE BAZAAR TO CONTINUE ITS UNREGULATED OPERATION.

5. TRANSACTIONAL DEMAND FOR FOREIGN EXCHANGE IS UNDOUBTEDLY AT A NADIR, WITH IMPORTERS SEVERELY CURTAILING ORDERS. THE LARGE UNANSWERED QUESTION IS WHY THE VALUE OF THE DOLLAR CONTINUES TO DECLINE IN THE BAZAAR WHEN LOGICALLY, IN VIEW OF ECONOMIC UNCERTAINTIES AND A LOW LEVEL OF COMMERCIAL ACTIVITIES, THE AFGHANI COULD BE EXPECTED TO WEAKEN VIS A VIS THE DOLLAR, AND OTHER FOREIGN CURRENCIES AS WELL. THE NEW GOVERNMENT MAY HAVE SO INTIMIDATED HOLDERS OF AFGHANIS THAT THEY ARE AFRAID TO BE CAUGHT ATTEMPTING TO SHIFT THEIR BALANCES INTO FOREIGN CURRENCIES. WIDESPREAD CURRENCY HORDING WAS EVIDENT HERE FOR SOME TIME BEFORE THE COUP, AND PRESSURES TO SHIFT THESE HOLDINGS INTO OTHER CURRENCIES WILL UNDOUBTEDLY INCREASE, AND WILL, LIKELY, BE BROUGHT TO A HEAD AS NEWS SPREADS OF PLANNED NEW CURRENCY ISSUE. PANIC SELLING OF AFGHANIS WOULD THEN BE A DISTINCT POSSIBILITY AND GOVERNMENT EFFORTS TO CONTROL IT WOULD, IN ALL PROBABILITY, LEAD TO A THRIVING CURRENCY BLACK MARKET.
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